

RISK MANAGEMENT (RM) PRACTICE OF UABEKISTAN AIRWAYS COMPANY

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Annotation:

National Air Company Uzbekistan Airways, operating, as Uzbekistan Airways is the flag carrier airline of Uzbekistan, headquartered in Tashkent. From its hub at Tashkent International Airport, the airline serves a number of domestic destinations; the company also flies international services to Asia, Europe and North America. Uzbekistan Airways Company had a flight accident in 2004. The flight was Uzbekistan Airways Yakovlev-40. Moreover, because of the accident 37 people died. Overall, eight accidents the airline company experienced. Since then company is trying to restore and regain its status. The reason of the choice of this company to see how the company is improving or changing its risk management policy.

Purpose: The purpose of this project is lay down the risks faced by the company, analyze and to give some measures as a solution

Keywords: airline, company, risk, management.

I. BACKGROUND OF THE UZBEKISTAN AIRWAYS COMPANY

Uzbekistan Airways Company is chosen as a target data for the risk management. The reason why I stopped to Uzbekistan Airways Company is I used the service of the airways company for the several times. Moreover, I can easily access to its detailed RM data. That is why I know it better than others companies. In body it will be enlightened in detail about the company weak/poor areas based on personal risk, liability and others systematically.

Uzbekistan has emerged as an aviation market with huge potential, since president Shavkat Mirziyoyev took over two years ago following the death of the long-standing Soviet style dictator Islam Karimov. Uzbekistan has since embarked on a major reform path which has opened up tourism and is leading to a major restructuring of the air transport sector.

Uzbekistan is now focusing heavily on tourism, which has already experienced a more than doubling of visitor numbers over the past two years, and the country has put in place a new much less restrictive visa policy that should help drive further rapid growth. New policies aimed at encouraging growth in aviation have also been introduced, ushering in a new more liberal operating environment that should attract more foreign airlines and privately owned start-ups.

The airline is being separated from airports and other areas as Uzbekistan finally abandons the Soviet-style vertical structure in which the airline company controls virtually every facet of

air transport, which has enabled cross-subsidisation with profits from monopolies in the airport and airspace sectors covering losses at the airline. The upside for Uzbekistan Airlines is that after a restructuring it should emerge as a leaner, more efficient airline with a strong position in a fast growing market on the cusp of a tourism boom.

COMPANY PROFILE

A. *Uzbekistan Airways' Strengths*

1. Dominant position in a fast growing market with enormous tourism prospective.

Uzbekistan Airways is the only airline in Uzbekistan, providing it with 100% domestic market share and a leading international market position. Currently, the airline accounts for about 60 percent of Uzbekistan's international seat size. Uzbekistan Airways is ready to benefit as Uzbekistan opens up and promotes tourism. Uzbekistan Airways has historically relied primarily on outbound and local traffic, but a tourism boom has generated a much larger inbound market and stimulated domestic demand as well. In 2018, Uzbekistan's visitor numbers exceeded around 5 million, compared to just 2 million (approximately) in 2016. The government projects that visitor numbers will exceed 9 million by 2026. Visitor numbers started increasing in 2H2017, boosted by the first wave of visa and economic reforms – including a devaluation of the local currency, which made Uzbekistan a bargain for overseas visitors and abolished the black market. Reforms that are more significant were introduced in 2018, leading to a huge spike in visitor numbers this summer. Turkey and South Korea are Uzbekistan Airways' second and third largest markets. Russia, its largest market, was already visa-free, along with other CIS countries. Uzbekistan Airways serves six of the original 11 other CIS countries – Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan. Uzbekistan also introduced an e-visa system in Jul-2018, which has made it significantly easier and less costly for citizens of more than 50 countries to get visas. At the same time, Uzbekistan introduced a free five-day transit visa for passengers from more than 100 countries, supporting Uzbekistan Airways' objective of attracting more sixth freedom traffic. Located on the ancient Silk Road and boasting five UNESCO world heritage sites, Uzbekistan has huge tourism potential – both for stopovers and as a destination itself. The visa changes and associated growth in visitor numbers have already led to a spike in traffic for Uzbekistan Airways. The airline reached the 3 million annual passengers milestone for the first time on 17-Dec-2018 and ended 2018 with 3.1 million passengers, consisting of over 2.2 million international, 500,000 domestic and 300,000 transit. Passenger traffic increased by approximately 20% compared to 2017, with double digit growth across all segments (local international, domestic and transit). The growth in 2018 comes after several years of flat traffic. Uzbekistan Airways expects another year of double-digit growth in 2019, with a projected 3.5 million passengers. This is clearly a good time to be an airline based in Uzbekistan.

II. ANALYSIS OF RM OF THE COMPANY

Risk management is the identification, evaluation, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the

probability or impact of unfortunate events or to maximize the realization of opportunities. The risk management process can be broken down into two interrelated phases;

1. **Risk assessment**
2. **Risk control.**

These phases are further broken down. **Risk assessment** involves risk identification, risk analysis, and risk prioritization, retention, insurance and bonding. **Risk control involves** risk planning, risk mitigation, and risk monitoring, avoidance, transfer, separation. (Boehm, 1989) It is essential that risk management be done iteratively, throughout the project, as a part of the team's project management routine.

Risks can come from various sources including financial market uncertainty, project failure threats (at any stage of design, development, production, or life cycle sustainability), legal liabilities, credit risk, accidents, natural causes and disasters, an adversary's deliberate attack, or uncertain or changeable root cause events. There are two types of events i.e. negative events can be classified as risks while positive events are classified as opportunities. Methods, definitions and goals vary widely according to whether the risk management method is in the context of project management, security, engineering, industrial processes, financial portfolios, actuarial assessments, or public health and safety.

Strategies to manage threats (uncertainties with negative consequences) typically include avoiding the threat, reducing the negative effect or probability of the threat, transferring all or part of the threat to another party, and even retaining some or all of the potential or actual consequences of a particular threat, and the opposites for opportunities (uncertain future states with benefits).

Let us talk about risk management types in insurance. All individual and corporate companies face various types of pure risks that pose a major threat to their financial securities. Under any of the following, the different types of pure risks we face can be classified:

- (i) **Personal risks**
- (ii) **Property risks**
- (iii) **Liability risks**

Uzbekistan airways Company had a flight accident in 2004. The flight was Uzbekistan Airways Yakovlev-40. Moreover, because of the accident 37 people died. If we analyze this accident of the company, we can observe all three key risks here. Specifically, 37 people died, the rest of passengers injured seriously. In addition, the airplane itself destroyed. We can see those three risks given above.

Risk Exposure (RE) = P x C below it is calculated based on some guessed facts.

Where P = probability of occurrence for a risk and C is the impact of the loss to the product should the risk occur. For example, if the probability of a risk of Uzbekistan Airways is 10 percent and the impact of the risk is \$10,000, the risk exposure = (0.1) (\$10,000) = \$1,000. If RE is calculated for each risk, the prioritization is based upon a numerical ranking of the risk exposures.

Now PML of the accident of Uzbekistan airways is calculated. Firstly, we multiply the property valuation by the highest expected loss percentage to calculate the probable maximum loss. Possibly, the property valuation is \$500,000 and we determine that fire risk

mitigation reduces expected losses by 20 percent, probable maximum loss for a fire is \$500,000 multiplied by .80 or \$400,000.

UZBEKISTAN AIRWAYS' WEAKNESSES

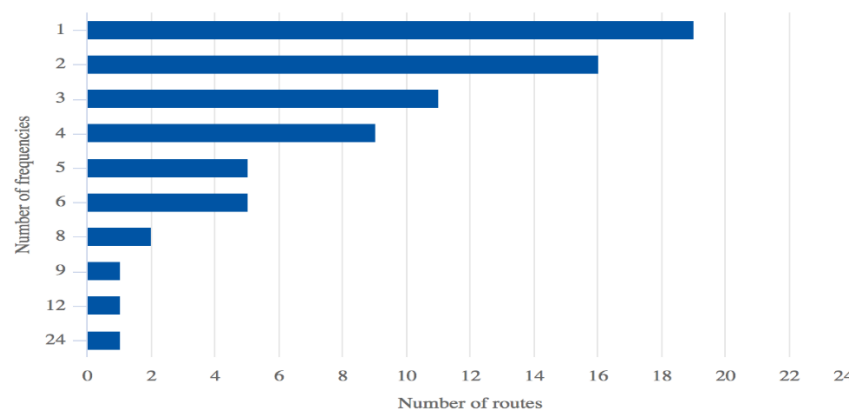
Limited Frequencies

Here I should mention that the accident happened with Uzbekistan Airways company belongs to all of the risks given above. The reason is some passengers died, and of course some property loss and according to liability risk it is airplane accident. In the accident in 2004, the airplane caught a fire, which means the PML was more than just an accident of Airplane. Because PML is expected as low if any airplanes has just accident. However, if there is fire it means, nothing left after the fire. Let us see some weak areas of the company as well as we will see week areas of the company.

Uzbekistan Airways has a large international network, operating 63 international routes from nine Uzbekistan airports to 44 international destinations. This can be regarded as a strength, since Uzbekistan Airways has more international destinations than any airline in Central Asia.

Still, 59 of the 63 international routes are served less than daily. Several major destinations are only served twice per week, including Beijing, Frankfurt, Kuala Lumpur, London, Mumbai, New York and Singapore. Milan, Rome and Paris are currently only served once per week (a higher, but still small, number of rates operate during summer). A surprising 35, or 56%, of all the airline's international routes are done with only one or two weekly flights.

Here we can see number of international routes served by weekly frequencies. **Dec2018**



Source: <https://www.uzairways.com/>

The current operation is highly inefficient. Low frequency routes are pricy to operate and make it difficult to attract business passengers. Uzbekistan Airways is pointing to grow transit traffic but on many of the targeted sixth freedom city pairs it offers only one or two options per week, which bounds its ability to compete against other airlines. If we look at from the point of risk management, without any doubt I can say it increases uncertainty of passengers toward the airline company.

What should be its solution to tackle the problem and reduce risk? Uzbekistan Airways would be better off focusing on serving a smaller number of international destinations with a higher number of frequencies. First, Uzbekistan Airways would also be better off operating international services from fewer airports in the country. Offering international flights from eight regional airports along with its center at Tashkent does not make sense. If Uzbekistan Airways Company cannot support passengers with frequent flights without making them wait some time for the flight date, especially businesspersons will have lack of confidence towards the company. It leads to lose the authority of the company. That is why this is considered as a big risk of the company. The current system at regional airports is inefficient because infrastructure has to be in place to support only a few flights per week. Uzbekistan Airways now manages all of Uzbekistan's airports as part of its unusual range. These airports are unprofitable from both an airport and airline perspective and a big risk of the company future.

III. BEST PRACTICE OF AIRLINES: CASE OF JETBLUE

Some solutions or recommendation should be identified and figured out to solve the problem and to decrease the probability of loss. As a recommendation JetBlue Airlines' policy of risk management will be given below.

Let's compare all of that to JetBlue. Ranked highest in customer satisfaction for low-cost airlines in North America 12 years in a row, it is no secret that people love JetBlue.

JetBlue is New York's Hometown Airline, and a leading carrier in Boston, Fort Lauderdale-Hollywood, Los Angeles (Long Beach), Orlando, and San Juan. JetBlue carries more than 42 million customers a year to 100+ cities in the U.S., Caribbean, and Latin America with an average of more than 1,000 daily flights. For more information, please visit jetblue.com.

JetBlue may be a low-cost airline, but that does not mean they are cheap. In fact, they are just the opposite. With services like free luggage (at least with BluePlus tickets); cheap cancellation and change fees; in-flight entertainment and complimentary snacks and beverages, JetBlue loves to spoil their customers. It is almost a surprise that they manage to keep their prices as low as they do. But it's precisely because of the great customer experience they provide that they are able to do so. They invest in great things for their customers and in return, their customers stay happy and go back to them. The Manager Fatigue Risk Management System is responsible for implementing and managing a data - driven Fatigue Risk Management System (FRMS) that ensures continuous improvement and mitigation of fatigue risk for JetBlue Airways Flight and Inflight Crewmembers. Critical for this role is the ability to engage business leaders, regulatory and union stakeholders. The Manager, Fatigue Risk Management System (FRMS) with delegated authority from the Director, Operational Safety & SMS, administers and executes JetBlue Airways Fatigue Risk Management System FRMS. The Manager, FRMS will administer a data-driven system, based largely upon scientific principles and operational knowledge, which allows for continuous monitoring and management of safety risks associated with fatigue-related error. The Manager FRMS will identify and provide mitigation suggestions to manage the potential risks

associated with fatigue. The Manager FRMS will manage, monitor and mitigate the effects of fatigue to improve flight crew member alertness and reduce performance errors.

1) They Care About People More Than Profit

When customers are frustrated or in a dire situation, they want to be heard and cared for. JetBlue cannot always give the customers exactly what they want, but they hire friendly people who show that they care about their customers.

Before Hurricane Irma hit, JetBlue offered \$99 flights out of South Florida, so that people could evacuate. Every other airline took advantage of the situation and drastically hiked up the prices; JetBlue was the one airline that kept its prices low and affordable for everyone.

IV. RECOMMENDATIONS/SOLUTION

As a solution, some more recommendations will be given below: After risks have been identified and enumerated, the next step is risk analysis. Through risk analysis, we transform the risks that were identified into decision-making information. In turn, each risk is considered and a judgment made about the probability and the seriousness of the risk. For each risk, the team must do the following (Laurie Williams 2004):

1. Assess the probability of a loss occurring. Some risks are very likely to occur. Others are very unlikely.
2. Establish and utilize a scale that reflects the perceived likelihood of a risk. Depending upon the degree of detail desired and/or possible, the scale can be numeric, based on a percentage scale, such as “10 percent likely to lose a key team
3. The team should establish a set numerical probability for each qualitative value (e.g. very improbable= 10 percent, improbable = 25 percent).
4. Assess the impact of the loss if the loss were to occur. Delineate the consequences of the risk, and estimate the impact of the risk on the project and the product. Similar to the probability discussion above, the team can choose to assign numerical values to the magnitude of loss, such as \$10,000 for a two-week delay in schedule. Alternately, categories may be used and assigned values, such as 1=negligible, 2=marginal, 3=critical, or 4=catastrophic.

Risk management plans should be developed for each of the “*above the line*” prioritized risks so that proactive action can take place. The following are some examples of the kinds of risk planning actions that can take place:

1. Information buying; the perceived risk can be reduced by obtaining more information through investigation. For example, in a project in which the use of a new technology has created risk, the team can invest some money to learn about the technology.
2. Contingency plans; a contingency plan is a plan that describes what to do if certain risks materialize. By planning with such a plan, you are prepared and have a strategy in place to deal with the issue. Contingency planning is the act of preparing a plan, or a series of activities, should an adverse risk occur. Having a contingency plan in place forces the project team to think in advance as to a course of action if a risk event takes place. Associated with a contingency plan, are the start and stop triggers. A start trigger is an event that would activate the contingency plan, while a stop trigger is the criteria to resume normal operations. Both should be identified in the Risk Register and can be embedded.

3. Risk reduction; For example, if the team is concerned that the use of a new programming language may cause a schedule delay, the budget might contain a line item entitled “potential schedule” to cover a potential schedule slip. Because the budget already covers the potential slip, the financial risk to the organization is reduced. Alternately, the team can plan to employ inspections to reduce the risk of quality problems.
4. Risk acceptance; Sometimes the organization consciously chooses to live with the consequences of the risk (Hall, 1998) and the results of the potential loss. In this case, no action is planned.
5. Related to risk planning, through risk mitigation, the team develops strategies to reduce the possibility or the loss impact of a risk. Risk mitigation produces a situation in which the risk items are eliminated or otherwise resolved. (Hall, 1998)

CONCLUSION

JetBlue Airways is a lowcost American airline owned by JetBlue Airways. Since its first operation in 2000, the airline has succeeded in achieving prizewinning customers and multiple awards for its services. On 14 February 2007, a JetBlue flight from John F. Kennedy International Airport to Cancún, Mexico was delayed on the ramp in a snowstorm, keeping passengers on the plane for nearly nine hours. Throughout that day, at least nine other JetBlue aircraft were also stranded on the tarmac, keeping the passengers on board. With massive public relation tactics and public apologies then, CEO, Mr. David Neelmen managed to get the public on their side. On 10 May 2007, JetBlue announced Barger’s appointment as CEO, who also retains the position of President. Neeleman, who was named non-executive Chairman of the Board, Mr. Burger needs to reflect his success on the experience that the airline had in the past. By reviewing the “Customer Bill of Rights” and adopting it to the present, Mr. Burger would not find it hard to fly the company in to the high sky. With its strategic plan and customer relation tactics, the success of the airline is not in a far distance. Uzbekistan airways has been improving its risk management system and the staff are doing their best to tackle all problems especially, after the accident stated above. I am sure if the company continues as doing now, and learn from some other companies experience as JetBlue Airline Company, in near future this company will be as one of the best companies as JetBlue or others.

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